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SUBJECT: ANTIGUAN AUTHORITIES BRACING FOR RECESSION

11. (C) Summary: Despite the current global economic crisis, the Antiguan government remains bullish on tourism, and several large tourism real estate development projects continue to move forward. The effect of the global crisis has yet to affect the real estate market, largely due to the ongoing shortage of housing on the island. The conservative nature of the offshore banking system and the preponderance of Canadian-owned banks has shielded the country from the worst of the global downturn. In an attempt to address slumping growth prospects, the government unveiled a 2009 budget heavy on capital spending. Opposition party officials blasted the projected budget deficit as an irresponsible attempt to curry favor among voters during an election year at the expense of the country's future economic health. End summary.

Tourism is Still King

12. (C) Tourism is the fundamental driver of the Antiguan economy. According to Permanent Secretary of Finance and Economy Doleen Lee, government estimates indicate that tourism is responsible for 40 percent of all employment, 85 percent of the foreign exchange, 60 percent of the nation's GDP, and 52 percent of total investment. Despite the global financial crisis and the ensuing world-wide recession, Antiguan tourism authorities remain hopeful that the country's economy will weather the storm. Although Antigua accounts for only two percent of total Caribbean tourism, that number has been increasing lately, Lee told EconOff in a recent meeting. Visits were up roughly three percent in 2007 and the first half of 2008; however, bookings are off significantly for the start of 2009. This was expected, she noted, but no one is certain how bad things are going to get before they get better. There is some concern among local authorities because the rate of decline has been steep and is only beginning to show up in the visit numbers. Antigua has a diversified tourism economy, which caters to all segments of the tourism trade from the ultra high-end luxury yachting community to budget all-inclusive travelers from Europe. Moreover, Lee added, Antigua's position as a regional air hub provides significant air links to its source markets, which should help the country hold up better than its regional rivals.

Offshore Banking and Internet Gaming

13. (C) The offshore banking industry and internet gaming industry have grown significantly over the last 10 years and now account for a significant portion of the national economy, bringing in 10 percent of foreign exchange earnings, Lestroy Stevens CEO of the Antigua Investment Authority explained during a recent meeting with EconOff. Solid economic growth, new laws to ease and simplify the

establishment of trusts and limited liability companies, and an investment-friendly government make Antigua an ideal place for foreign investment banks, captive insurance companies and offshore gaming companies, Samuel added. After years of lobbying by the Ministry of Finance, Antiguan internet gaming companies were recently given "white list" status by the UK government, which gives them the ability legally to advertise their services there. This is a big win for the industry and should lead to increased revenues. However, it is still not enough to make up for the lost revenue from the United States, Stevens commented, alluding to the internet gaming case against the United States won by Antigua at the WTO.

An Investor's Eye View

¶4. (C) Local and foreign investors remain guardedly confident in Antigua's ability to weather the current economic downturn. American real estate investor Bruce Baxter told EconOff that local bankers believe Antigua has thus far not been significantly affected by the global financial crunch. That said, Baxter noted, the number of construction starts and new project loans is off significantly from the previous year. However, the limited supply of real estate product on the local market, coupled with the conservative lending practices of the major Canadian banks that dominate the Antigua lending market, provides a shield against the bottom falling out of the local market.

¶5. (SBU) The greatest area of concern for local bankers and government officials is the relative strength of the Euro and the Pound. Antigua's currency, the Eastern Caribbean Dollar, has been pegged to the U.S. Dollar since 1976, and any strengthening of the U.S. Dollar will alter the economics of visits from the U.K. and Europe. This is very concerning, he noted, as the majority of Antigua's tourists come from the UK and Canada. Baxter and other investors told EconOff that they have recently been approached by multiple foreign investors seeking to invest in tourism-related real estate projects on the Island. Of the 11 ongoing new developments and redevelopment projects, only one has had to halt construction due to the global financial crisis -- construction of the Hodges Bay Club had to be halted because the Icelandic Government took over the project's primary lender, Kaupthing, Singer and Friedlander, and new financing is now being sought to complete the project.

2009 Budget Gets a Little Stimulus

¶6. (C) In his annual budget speech on December 1, Finance Minister Errol Cort outlined spending priorities for the 2009 budget. In his speech, FinMin Cort announced a security budget of 8.2 million USD, reflecting an increased emphasis by the government on crime fighting and security. The FinMin also highlighted the Ministry of Public Works, annual budget, saying that it underscored the government's commitment to provide basic services to all Antiguanians. Some commentators have questioned the government's profligate spending plans heading into a period of revenue instability.

Embassy contacts argue that the new budget, which adds almost 150 million USD in new debt, is merely an election year ploy to drum up votes. (Note: New elections must be held no later than March, 2009. End note.) However, the Government has argued that increased spending is important at this time to shield Antiguanians from the effects of the global financial crisis.

Comment

¶7. (C) While Antigua has lowered its debt ratio from 120 percent to just under 90 percent since 2005, many people

question the prudence of a micro-state such as Antigua taking on 150 million USD in new debt in one year. The government has argued that it is necessary given the current macro-economic environment in order to maintain low unemployment. By focusing much of the spending on infrastructure investments and increasing the number of people working for the government, their spending goals appear to be Keynesian in nature and therefore correlate strongly with their rhetoric. Thus, countering the opposition's argument that the decision to run a large deficit this year is simply election year pandering to voters. However, as a country with a history of not paying its debts, continued increases in national debt over the next few budget cycles warrant close scrutiny.

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